

1-23-2002

ENRON BANKRUPTCY CASTS SHADOW OVER EFFORTS OF MEXICAN PRESIDENT TO FURTHER PRIVATIZE ELECTRIC- POWER SECTOR

SourceMex writers

Follow this and additional works at: https://digitalrepository.unm.edu/la_energy_notien

Recommended Citation

SourceMex writers. "ENRON BANKRUPTCY CASTS SHADOW OVER EFFORTS OF MEXICAN PRESIDENT TO FURTHER PRIVATIZE ELECTRIC-POWER SECTOR." (2002). https://digitalrepository.unm.edu/la_energy_notien/151

This Article is brought to you for free and open access by the Latin American Energy Policy, Regulation and Dialogue at UNM Digital Repository. It has been accepted for inclusion in NotiEn: An Analytical Digest About Energy Issues in Latin America by an authorized administrator of UNM Digital Repository. For more information, please contact disc@unm.edu.

ENRON BANKRUPTCY CASTS SHADOW OVER EFFORTS OF MEXICAN PRESIDENT TO FURTHER PRIVATIZE ELECTRIC-POWER SECTOR

The bankruptcy of US energy company Enron has cast a shadow over efforts by President Vicente Fox's administration to partially privatize Mexico's two main electrical-power utilities, the Comision Federal de Electricidad (CFE) and Compania Luz y Fuerza del Centro (LFC).

Enron filed for bankruptcy protection in early December and, as a result, has announced plans to abandon dozens of unfinished projects throughout Latin America.

In Mexico, the company had won a contract under the independent power-producer scheme (Produccion Externa de Energia, PEE) to invest US\$400 million to build a 284-megawatt power plant in Nuevo Leon state to supply energy to several Monterrey industrial giants like glass manufacturer Vitro, cement maker Apasco, and steel company IMSA.

Fortunately for those companies, Enron has reached an agreement to sell most of its interests in the plant to Belgian energy company Tractebel. This agreement awaits the approval of the Comision Reguladora de Energia (CRE).

Under the PEE, introduced by former President Carlos Salinas de Gortari, Mexico allows private companies to construct and operate small power plants for 25 years, with ownership reverting to the CFE at the end of the concession period. The power generated by these plants is sold to private companies, and in some instances to the CFE, but never to the public at large.

The effects of Enron's bankruptcy will not directly endanger the PEE program but may inhibit Fox's efforts to develop other new schemes to attract private investment into the electrical-power sector, especially the country's two large electric-utility companies. Fox says electrical sector needs large capital infusion

Still, the Fox administration contends some reforms are necessary to attract capital to the electrical-power sector to prevent massive electricity shortages, since the power generated under the PEE accounts for only a small percentage of Mexico's energy needs.

Speaking at the inauguration of a power plant in Sonora state in January, Fox said Mexico would require at least US\$5 billion in new investments annually during the next several years to meet the country's growing demand for electrical power. The alternative, said Fox, would be for Mexico to begin rationing power in the "medium term."

Fox's efforts to expand private participation in the electrical-power sector face some opposition from labor and private business organizations. Labor unions, particularly the one that represents workers at the LFC, are concerned about the potential loss of jobs. Business groups would like Fox to delay opening the power sector, given the problems with Enron and problems with electricity privatizations in Argentina and Chile.

Some citizen groups are concerned that a privately run CFE or LFC would cut access to electricity for many Mexicans. The Washington Post recently reported that at least 10 million

Mexicans steal electricity from the LFC using thin bypasswires known as diablitos. "In Mexico, where at least 40% of the country's 100 million people live in poverty, it has been politically impossible to crack down on the only access most poor people have to electricity," the newspaper said.

Some analysts blame the large-scale electricity thefts on poor management practices at the public utilities, which is why privatization is necessary. "For any US utility, if there were 100 nonpaying customers on your lines, you'd be in trouble. If there were 10,000 you'd be fired. Ten million? Forget it," analyst George Baker of the Houston-based Mexico Energy Intelligence told The Washington Post.

Congress opposes private investment in public utilities

The strongest criticisms of the administration's plans to bring private investment into the CFE and LFC have come from Congress, especially the center-left Partido de la Revolucion Democratica (PRD) and the long-governing Partido Revolucionario Institucional (PRI).

In March 2001, the two parties led a congressional challenge before Mexico's highest court (Suprema Corte de Justicia de la Nacion, SCJN) against Fox for simply attempting to increase the amount of electricity that private companies can sell to the CFE (see [SourceMex, 2001-07-18](#)).

Fox can count on limited support from his Partido Accion

Nacional (PAN) and from the Partido Verde Ecologista Mexicano (PVEM). Deputy Felipe Calderon Hinojosa, the leader of the PAN delegation in the Chamber of Deputies, said the party would put a high priority on reforming the laws that govern the two electrical utilities. But the PAN leader said any legislation that is approved would have to gain a fairly broad consensus. "We want the electricity reform to have the same type of consensus as the tax reform we passed here in the lower house," he said.

PAN Sen. Juan Jose Rodriguez Prats, chair of the energy committee (Comision de Energeticos) in the upper house, sounded a note of caution when discussing the potential privatization. The PAN senator told reporters he supports a further opening of the Mexican electrical-power sector to private investment, but only if the government retains tight controls over the industry.

With support in Congress so uncertain, administration officials have opted not to introduce any new initiatives and instead work with other plans already introduced in previous years and up for review in the Senate during the current legislature. Energy Secretary Ernesto Martens said the Fox administration would rely on initiatives advanced by the PAN, the PVEM, and the administration of former President Ernesto Zedillo. If any of these is approved in the Senate, the measure could end up back in the lower house.

The problem for the Fox administration is that none of the three plans stands much of a chance without support from PRI and PRD legislators in both chambers.

"We reject the Fox government's privatization intentions for the electricity sector," said Deputy Marti Batres, PRD leader in the Chamber of Deputies. "They make no sense, in light of the Enron scandal and the failed electricity deregulation in California, where government rescues are becoming necessary."

Opponents willing to support limited electrical reforms

The PRI and PRD have endorsed some electrical reform, but without relying significantly on privatization. As an alternative to privatization, the PRD and PRI are pushing for a scheme that would give the CFE more independence, allowing the entity to collect and manage its own resources. This is endorsed by several private Mexican business organizations like the Camara Nacional de la Industria de Transformacion (CANACINTRA).

Fox has supported the concept, but as a supplement and not an alternative to partial privatization. "We are determined to strengthen the CFE and PEMEX so that they are able to better manage our energy patrimony," Fox recently told reporters.

The president has gained support from PRI legislators for his proposals to implement daylight-saving time. The lower house, in late December, voted overwhelmingly to approve the use of daylight-saving time for a seven-month period beginning the first Sunday in April and ending the last Sunday in October. The PRD continued to oppose the time change, but its opposition was insufficient to block passage of the measure, which was approved by a 295-177 vote.

The Congress gained the right to set policies on daylight-saving time after the SCJN ruled in September 2001 that President Fox had no authority to impose the time change in Mexico City (see [SourceMex, 2001-09-09](#)).

Still, the congressional vote on daylight-saving time represented a victory for Fox, who contends that use of the time change has helped Mexico save about 5.3 billion kilowatt-hours over five years (see [SourceMex, 2001-05-09](#)). Daylight-saving time has been in effect in Mexico since 1996.

Independent producer program remains a success

The Fox administration, meanwhile, is continuing to promote the PEE as a way to expand electrical power in Mexico. On Jan. 10, Fox officially inaugurated six plants constructed under the PEE, which together will boost Mexico's power-generation capacity by 1,519 MW.

The president attended the inauguration of the new plant in Hermosillo, Sonora state, and was hooked up via satellite to the launching of Tuxpan II in Veracruz state, Saltillo in Coahuila state, Rosarito III in Baja California state, and Tres Virgenes and San Carlos in Baja California Sur state. Also participating in the ceremonies via satellite were Govs. Miguel Aleman Velasco of Veracruz, Enrique Martinez of Coahuila, and Eugenio Elorduy of Baja California.

Even without further opening the electrical sector, the PEE remains attractive enough to interest companies like Spain's Union Fenosa and Abengoa, France's ADF and Alstom, and Japan's Mitsubishi. All these energy firms have become involved in constructing and operating hydroelectric facilities in Mexico in recent years.

"[Energy reform] is not indispensable for investing in Mexico," said Union Fenosa president Victoriano Reinoso, whose company has become one of the three leading foreign investors in Mexico's power industry.

Energy-industry analyst and columnist David Shields suggests the very success of the PEE could hinder efforts to further open the electricity sector. "Ironically, the CFE's success...in starting up these new plants has given further ammunition to critics of electricity deregulation," said Shields in a column in the Mexico City English-language daily newspaper The News. [These critics wonder] why we have to pass an energy reform bill and further open up the power industry to private companies, if things are working perfectly well as they are."

(Sources: La Cronica de Hoy, 01/10/02; Novedades, 01/14/02; The News, Notimex, 01/17/02; The Washington Post, 01/20/02; El Universal, 12/31/01, 01/14/02, 01/18/02, 01/21/02, 01/22/01; La Jornada, 01/10/02, 01/14/02, 01/17/02, 01/18/02, 01/20-22/02; El Financiero, 01/15-18/02, 01/22/01; Milenio Diario, 01/17/02, 01/22/01; Reforma, 01/17/02, 01/18/02, 01/22/01)